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CANADIAN GENERAL INVESTMENTS LIMITED



1972

Annual Report

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CANADIAN GENERAL INVESTMENTS LIMITED

Board of Directors _____

JOHN D. BARRINGTON	M. C. G. MEIGHEN, O.B.E.
ALEX. E. BARRON	T. R. MEIGHEN, Q.C.
DAVID L. CAMPBELL	JOHN C. RYKERT
JAMES M. GILLIES	J. ALLYN TAYLOR
DOUGLAS N. KENDALL	DONALD C. WEBSTER
A. BRUCE MATTHEWS, C.B.E., D.S.O.	DONALD J. A. WRIGHT

Officers _____

M. C. G. MEIGHEN, O.B.E. - - - - -	<i>Chairman of the Board</i>
ALEX. E. BARRON - - - - -	<i>President</i>
JOHN C. RYKERT - - - - -	<i>Treasurer</i>
E. LOUISE MORGAN - - - - -	<i>Secretary</i>
PATRICK O. G. WRIGHT - - - - -	<i>Assistant Treasurer</i>

Auditors _____

PRICE WATERHOUSE & CO. - - - - -	Toronto
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Registrar and Transfer Agent _____

THE CANADA TRUST COMPANY - - - - -	Toronto
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Office of Company _____

110 YONGE STREET, SUITE 1702 (Telephone 366-2931) - - - - -	Toronto
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CANADIAN GENERAL INVESTMENTS LIMITED

TO THE SHAREHOLDERS:

Your Directors have pleasure in submitting the Annual Report of your Company for the year ended December 31, 1972 consisting of the Consolidated Balance Sheet, and Consolidated Statements of Income, Retained Earnings, Unrealized Gain on Investments and Changes in Net Assets.

Before presenting the highlights of these statements, your Directors draw attention to the fact that some new accounts appear in the statements for the first time this year. This is a direct result of the new Canadian Income Tax Act (Federal) and in particular to that part of the Act requiring tax to be paid on realized capital gains. We have been advised by our auditors that your Company should provide for the full potential capital gains tax liability which exists in the portfolio; in other words, the Company should provide for the capital gains tax liability which would be incurred if the entire portfolio was disposed of at prices which prevailed on December 31, 1972. This, to a large extent, explains the emergence of the Deferred Income Tax account. You will find additional information on this matter in the notes to the financial statements.

The balance sheet discloses that the total consolidated assets of the Company as at December 31, 1972 amounted to \$142,775,474. From this amount is deducted accounts payable, minority interest and deferred income taxes which leaves a net value of \$133,720,461. Based on the 960,941 common shares outstanding as at December 31, 1972, each common share had an apparent equity value of approximately \$139.16. It should be noted that while \$8.9 million in deferred income taxes was deducted from Consolidated Assets in calculating the equity value per share, the \$8.9 million continues to work for the benefit of the shareholders. Such will be the case until future realization of capital gains necessitates part or all of these deferred taxes to be paid to the government.

The Consolidated Statement of Income discloses that your Company, after paying all expenses and providing for income taxes and the minority interest, had a net income for the year of \$2,694,143. This is equivalent to \$2.80 for each of the outstanding common shares.

During 1972, shareholders received dividends of \$2.40 per share. These dividends were paid for tax purposes out of the Company's December 31, 1971 surplus accounts (see Note 4 to Financial Statements) and are not subject to Canadian Income Tax in the hands of the shareholders. These dividends, however, do reduce the adjusted cost base of your shares and this in turn could affect the taxable capital gain or loss resulting from any future sale of shares.

For those shareholders who are using the V-day value as the tax cost of their shares, may we advise that the Department of National Revenue has set the V-day value of your shares at \$66.00.

Your Directors have decided, for the time being, to continue paying dividends for tax purposes out of the Company's December 31, 1971 surplus accounts subject to considerations to be outlined in the following paragraph. Such a dividend in the amount of sixty cents per common share has been declared payable March 15, 1973 to shareholders of record February 28, 1973.

Your Directors wish to outline two of the problems that have arisen as a result of the new Canadian Income Tax Act (Federal). We regret the complexity of this matter and have endeavoured to simplify it for the purpose of this presentation.

- (a) Dividends paid for tax purposes from the Company's December 31, 1971 surplus accounts are received by the shareholder free from Canadian Income Tax. This type of dividend does, however, reduce the shareholder's adjusted cost base.

Each shareholder's tax status and investment objectives will determine the advantages or disadvantages of this manner of dividend payment. Consequently, consideration is being given to dividing

the capital stock of the Company into two inter-convertible classes of shares. One class of shares would be entitled to cash dividends paid out of current earnings and would be subject to Canadian Income Tax. The other class of shares would be entitled to dividends paid for tax purposes out of the Company's 1971 surplus accounts and would not be subject to Canadian Income Tax but would reduce the adjusted cost base of the shares. It would be the intent of your Directors that these two classes of shares would be similar in all respects except for the nature of the dividend. We are hesitant to implement such a capital change until it is certain that the Tax Authorities will not view such an exchange of shares as a transaction subject to Capital Gains Tax. We are advised that it is Ottawa's intent to eliminate the possibility of capital gains tax in a transaction of this nature. The matter is now before Parliament but has not yet been passed into law by our legislators.

- (b) As outlined in the notes to the financial statements your Company does not qualify under the Government's definition of an Investment Corporation and is therefore, not eligible for a rebate of capital gains tax paid by the Company once these capital gains are passed on to the shareholders in the form of dividends. In our opinion this is most unfair in that it results in an undue taxation of Capital Gains. We are hopeful that in the near future we will have the opportunity to discuss this matter with the proper Government officials with a view to having the current definition of an Investment Corporation altered. Your Directors however, would like to emphasize that fortunately we have some time to have this inequity removed. Given current stock market prices, your Company has a considerable amount of unrealized gain which was accrued prior to December 31, 1971 and which is not subject to tax. These gains do not encounter the onerous taxation effect if realized and paid out in dividends.

We would like to record the resignations from the Board of Directors of Mr. Edward F. Ryan who has served on the Board from 1958 to 1971 and Mr. Donald J. A. Wright who has served on the Board since 1966. These Directors have been of invaluable assistance to the Board over the years and their presence will certainly be missed. We also record the resignation of Dr. James Gillies who joined the Board during 1972 replacing Mr. Ryan. Because of Federal Government responsibilities, he is unable to continue. We congratulate Dr. Gillies on his political success and wish him good fortune in this new aspect of his career.

We wish to advise you that at the Directors' Meeting held on January 26, 1973 the Board appointed two new Directors namely, Mr. Ralph Barford and Mr. Patrick O. G. Wright.

The portfolio of investments as at December 31, 1972 is to be found on pages 10 and 11 of this report.

A complete list of the securities held by C.G.I. and Third Venture Capital Limited is shown on the last page of this report.

Submitted on behalf of the Board.

Mr. C. G. McInnes

Chairman of the Board

Al E. Evans

President

TORONTO, January 26, 1973.

C A N A D I A N G E N E R A L AND SUBSIDIARIES

Consolidated Balance Sheet

(Note 1)

Assets

	December 31	
	1972	1971
Investments at indicated market value (Note 2):		
Securities having a quoted market value - - - - -	\$139,054,001	\$ 99,512,813
Securities not having a quoted market value - - - - -	3,531,498	2,576,385
	<u>142,585,499</u>	<u>102,089,198</u>
(Cost as at—		
December 31, 1972—\$45,478,649		
December 31, 1971—\$42,153,628)		
Short term security, at cost plus accrued interest - - - - -	150,062	—
Securities sold - - - - -	—	47,025
Income taxes recoverable - - - - -	11,123	3,404
Cash in bank - - - - -	28,790	1,608,020
	<u>\$142,775,474</u>	<u>\$103,747,647</u>

Liabilities and Shareholders' Equity

Accounts payable - - - - -	\$ 700	\$ 750
Minority interest in subsidiary - - - - -	69,181	48,158
Deferred income taxes (Note 4) - - - - -	8,985,132	—
Shareholders' equity:		
Capital stock—		
Authorized—		
25,046,602 3% non-cumulative non-voting preference shares with a par value of 20¢ each redeemable at the amount paid up thereon		
1,000,000 common shares without par value		
Issued and outstanding—		
960,941 common shares - - - - -	24,023,525	24,023,525
Unrealized gain on investments - - - - -	88,115,324	59,940,098
Retained earnings - - - - -	21,581,612	19,735,116
	<u>133,720,461</u>	<u>103,698,739</u>
APPROVED ON BEHALF OF THE BOARD:	<u>\$142,775,474</u>	<u>\$103,747,647</u>

M. C. G. MEIGHEN, Director
J. ALLYN TAYLOR, Director

Auditors' Report to the Shareholders of

CANADIAN GENERAL INVESTMENTS LIMITED:

We have examined the consolidated balance sheet of Canadian General Investments Limited and its subsidiary as at December 31, 1972 and the consolidated statements of income, retained earnings, unrealized gain on investments and changes in net assets for the year then ended. Our examination included an inspection of share certificates and other evidence of the investments held by the companies as at December 31, 1972 and a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & Co.
Chartered Accountants

TORONTO, January 12, 1973.

I N V E S T M E N T S L I M I T E D

RY COMPANY

Consolidated Statement of Income

	Year ended December 31	
	1972	1971
Income:		
Dividends received - - - - -	\$ 2,926,381	\$ 2,869,100
Interest earned - - - - -	25,148	37,440
	<u>2,951,529</u>	<u>2,906,540</u>
Expense:		
Management fee - - - - -	259,248	230,220
Directors' fees (Note 3) - - - - -	5,900	5,800
Miscellaneous - - - - -	19,158	20,569
	<u>284,306</u>	<u>256,589</u>
Income before income taxes and interest of minority shareholders -	2,667,223	2,649,951
Recovery of (provision for) income taxes - - - - -	27,022	(5,180)
Income before minority interest - - - - -	2,694,245	2,644,771
Interest of minority shareholders - - - - -	102	360
Net income for the year - - - - -	<u>\$ 2,694,143</u>	<u>\$ 2,644,411</u>
Net income for the year per common share - - - - -	<u>\$2.80</u>	<u>\$2.75</u>

Consolidated Statement of Retained Earnings

	Year ended December 31	
	1972	1971
Balance at beginning of year - - - - -	\$ 19,735,116	\$ 18,476,480
Net income for the year - - - - -	2,694,143	2,644,411
Gain on investments sold or redeemed, less minority interest and income taxes of \$22,000 (1971—Nil) - - - - -	1,900,464	1,274,705
	<u>24,329,723</u>	<u>22,395,596</u>
Dividends paid on common shares - - - - -	2,306,258	2,306,258
Tax paid under Section 196(1) (1971—105(2)) of the Income Tax Act - - -	441,853	354,222
	<u>2,748,111</u>	<u>2,660,480</u>
Balance at end of year - - - - -	<u><u>\$ 21,581,612</u></u>	<u><u>\$ 19,735,116</u></u>
Dividends paid per common share - - - - -	<u><u>\$2.40</u></u>	<u><u>\$2.40</u></u>

Consolidated Statement of Unrealized Gain on Investments

	Year ended December 31	
	1972	1971
Increase during the year - - - - -	\$ 37,171,280	\$ 10,349,297
Less:		
Deferred income taxes - - - - -	8,985,132	—
Interest of minority shareholders - - - - -	10,922	(1,892)
	<u>8,996,054</u>	<u>(1,892)</u>
	<u>28,175,226</u>	<u>10,351,189</u>
Balance at beginning of year - - - - -	59,940,098	49,588,909
Balance at end of year - - - - -	<u><u>\$ 88,115,324</u></u>	<u><u>\$ 59,940,098</u></u>

N V E S T M E N T S L I M I T E D

ARY COMPANY

Consolidated Statement of Changes in Net Assets

	Year ended December 31	
	1972	1971
Net assets at beginning of year - - - - -	\$103,698,739	\$ 92,088,914
Add:		
Net income for the year - - - - -	2,694,143	2,644,411
Gain on investments sold or redeemed less minority interest and income taxes	1,900,464	1,274,705
Increase in unrealized gain on investments - - - - -	28,175,226	10,351,189
	136,468,572	106,359,219
Less:		
Dividends paid - - - - -	2,306,258	2,306,258
Tax paid under Section 196(1) (1971—105(2)) of the Income Tax Act - - -	441,853	354,222
	2,748,111	2,660,480
Net assets at end of year - - - - -	<u>\$133,720,461</u>	<u>\$103,698,739</u>
Gain on investments sold or redeemed:		
Cost of investments at beginning of year - - - - -	\$ 42,153,628	\$ 42,320,348
Add: Purchase of investments during year - - - - -	3,775,507	1,171,794
	45,929,135	43,492,142
Less: Cost of investments at end of year - - - - -	45,478,649	42,153,628
Cost of investments sold or redeemed during year - - - - -	450,486	1,338,514
Proceeds from sale or redemption of investments during year - - - - -	2,372,950	2,613,712
Gain on investments sold or redeemed before minority interest and income taxes - - - - -	1,922,464	1,275,198
Provision for income taxes - - - - -	22,000	—
Interest of minority shareholders - - - - -	—	493
	22,000	493
Net gain on investments sold or redeemed - - - - -	<u>\$ 1,900,464</u>	<u>\$ 1,274,705</u>
Apparent liquidating value per common share:		
At beginning of year - - - - -	<u>\$107.91</u>	<u>\$ 95.83</u>
At end of year - - - - -	<u>\$139.16</u>	<u>\$107.91</u>

**CANADIAN GENERAL INVESTMENTS LIMITED
AND SUBSIDIARY COMPANY**

Notes to the Consolidated Financial Statements

DECEMBER 31, 1972

1. The consolidated financial statements include the accounts of the Company and its 90% owned subsidiary, C.G.I. and Third Venture Capital Limited.
2. The indicated market values of quoted securities are the result of pricing the companies' holdings at the closing quoted market prices as at December 31. Such amounts do not necessarily represent the value of the total holding in any company which may be more or less than that indicated by market quotations. Securities not having a quoted market value have been included at values determined by the directors based principally on the underlying value of the assets represented by these securities.
3. No remuneration is paid by the Company to its "senior officers", as defined by the Business Corporations Act, 1970.
4. Taxation:
 - (i) The companies do not qualify as "investment corporations" as defined in Section 130 of the new Canadian Income Tax Act (federal) which came into force on January 1, 1972; accordingly, they are subject to income tax as "public corporations". "Taxable dividends" received from "taxable Canadian corporations", as defined by the new Act, are excluded from taxable income; one-half of gains on disposal of investments, to the extent that these have accrued since December 31, 1971, are subject to income tax at full corporate rates.
 - (ii) Unrealized appreciation on investments includes \$37,134,487 which has accrued since December 31, 1971. In addition, the parent company has received dividends of \$298,400 during the year which were paid out of "tax paid undistributed surplus on hand" of the payor corporations and, therefore, must be applied to reduce the adjusted cost base of the investments in the payor corporations resulting in a corresponding increase in the gain which may ultimately be realized on these investments. If the companies' portfolios had been sold at their indicated market values as at December 31, 1972, additional income taxes of \$8,985,132 would have been payable after applying \$190,543 of the "1972 non-capital loss carry forward" against the taxable gains. Provision for these deferred income taxes has been made in the accounts.
 - (iii) As at December 31, 1972 the parent company estimates its tax surplus categories, as defined by the Income Tax Act and subject to confirmation by the Canadian taxation authorities, to be as follows:

	(a) 1971 Undistributed income (Section 196)	(b) Tax Paid Undistributed surplus (Section 89(1)(k))	(c) 1971 Capital surplus
Balance at January 1, 1972 - - - - -	\$ 2,945,687	\$ 5,600	\$18,922,644
Dividends received - - - - -	—	298,400	—
Section 196(1) Elections - - - - -	(2,945,687)	2,503,834	—
Tax free dividends paid on common shares - - - - -	—	(2,306,258)	—
Accrued gains on subsequent disposal of investments -	—	—	1,685,155
Balance at December 31, 1972 - - - - -	<u>\$ —</u>	<u>\$ 501,576</u>	<u>\$20,607,799</u>

The parent company may elect to pay dividends out of category (b) and, if category (a) has been exhausted, out of category (c). Such dividends are not required to be included in the shareholder's income but reduce the adjusted cost base of his investment for Canadian tax purposes.

CANADIAN GENERAL INVESTMENTS LIMITED

Summary by Industry

	VALUE AS OF DEC. 31, 1972	PERCENT OF PORTFOLIO
Finance - - - - -	\$ 20,822,688	20.7
Merchandising - - - - -	21,703,000	15.2
Business Forms - - - - -	14,560,000	10.2
Energy - - - - -	13,670,625	9.6
Industrial Management - - - - -	13,036,684	9.2
Investment Trusts - - - - -	10,758,000	7.6
Steel - - - - -	10,430,000	7.3
Beverages - - - - -	9,245,000	6.5
Metals - - - - -	5,546,875	3.9
Miscellaneous - - - - -	4,440,125	3.1
Packing - - - - -	3,934,500	2.8
Metal Products - - - - -	2,625,000	1.8
Forest Products - - - - -	2,284,808	1.6
Venture Capital - - - - -	689,444	.5
Real Estate - - - - -	138,750	—
	<hr/>	<hr/>
	\$142,585,499	100.0

CANADIAN GENERAL INVESTMENTS LIMITED

Portfolio of Investments

AS AT DECEMBER 31, 1972

No. of Shares		Total Market Value \$	% of Portfolio	No. of Shares		Total Market Value \$	% of Portfolio
	Beverages	9,245,000	6.5	40,000	Royal Bank of Canada - - - -	1,485,000	
215,000	Distillers Corporation-Seagrams -	9,245,000		20,000	Toronto-Dominion Bank - - -	685,000	
					(B) FINANCE COMPANIES -	1,087,938	
	Business Forms	14,560,000	10.2	51,500	IAC Limited - - - - - - -	1,087,938	
280,000	Moore Corporation - - - - -	14,560,000			(C) LIFE INSURANCE - - -	106,000	
				1,000	London Life Insurance Co. - -	106,000	
	Energy	13,670,625	9.6		(D) TRUST COMPANY - -	25,840,000	
	(A) OILS - - - - - - - -	9,360,000					
160,000	Imperial Oil Ltd. - - - - -	7,860,000		760,000	Huron & Erie Mortgage Corporation - - - - - - -	25,840,000	
25,000	Shell Canada 'A' - - - - -	1,500,000					
	(B) PIPELINES - - - - -	2,970,000			Forest Products	2,284,808	1.6
80,000	Interprovincial Pipeline - - -	2,310,000		69,615	Maclaren 1.00 Prefd. - - - -	34,808	
15,000	TransCanada PipeLines - - -	660,000		90,000	MacMillan, Bloedel Ltd. - - -	2,250,000	
	(C) OTHER - - - - - - -	1,340,625					
50,000	Consumers' Gas Co. - - - - -	881,250			Industrial Management	13,036,684	9.2
25,000	Rio Algom Mines Limited - -	459,375		730,000	Argus Corporation Class 'C' Prefd. - - - - -	9,855,000	
				28,729	Ravelston Corp. Ltd. - - - -	534,934	
	Finance Industry	29,522,688	20.7	264,675	Ravelston Corp. Ltd. Prefd. - -	2,646,750	
	(A) BANKS - - - - - - -	2,488,750					
15,000	Bank of Montreal - - - - -	318,750					

Note: Argus Corporation holds shares in the following companies: British Columbia Forest Products, Dominion Stores, Domtar Limited, Hollinger Mines, Massey-Ferguson and Standard Broadcasting Corp. Ltd.

CANADIAN GENERAL INVESTMENTS LIMITED

No. of Shares		Total Market Value \$	% of Portfolio	No. of Shares		Total Market Value \$	% of Portfolio
	Investment Trusts	10,758,000	7.6		Packing	3,934,500	2.8
652,000	Third Canadian General Investment Trust Limited - -	10,758,000		183,000	Canada Packers Limited - - -	3,934,500	
	Merchandising	21,703,000	15.2		Real Estate	138,750	—
270,000	Canadian Tire Corporation 'A' Prefd. - - - - -	17,145,000		7,500	Trizec Corporation - - - - -	138,750	
7,000	Cochrane-Dunlop Hardware - -	273,000			Steel	10,430,000	7.3
120,000	Simpsons Limited - - - - -	3,660,000		220,000	Algoma Steel Corp. - - - - -	2,942,500	
20,000	Woodward Stores Ltd. - - - -	625,000		100,000	Dominion Foundries & Steel - -	2,862,500	
	Metal Products	2,625,000	1.8	125,000	Steel Co. of Canada - - - - -	4,625,000	
210,000	Hayes Dana Ltd. - - - - -	2,625,000			Venture Capital	689,444	.5
	Metals	5,546,875	3.9		(see p. 12)		
	(A) BASE METALS - - - - -	2,205,000			Miscellaneous	4,440,125	3.1
90,000	Cominco Ltd. - - - - -	2,205,000		25,000	Kenting Limited - - - - -	246,875	
	(B) OTHER METALS AND MINERALS - - - - -	3,341,875		45,000	Scott's Restaurants Ltd. - - -	1,001,250	
60,000	Alcan Aluminium Ltd. - - - -	1,357,500		96,000	Southam Press Ltd. - - - - -	2,904,000	
62,500	International Nickel Co. Canada	1,984,375		36,000	D. A. Stuart Oil Co. Ltd. - - -	288,000	

C.G.I. AND THIRD VENTURE CAPITAL LIMITED

Authorized Capital—

10,000 6% non-cumulative, non-voting preference shares with a par value of \$100 each redeemable at the amount paid up thereon.

100,000 common shares without par value.

Issued and outstanding—

5,000 preference shares

100,000 common shares.

As at December 31, 1972 Canadian General Investments Limited held 4,500 preference shares and 90,000 common shares for a total investment of \$540,000. Third Canadian General Investment Trust Limited held 500 preference shares and 10,000 common shares for a total investment of \$60,000. There are no other shareholders.

Portfolio of Investments

AS AT DECEMBER 31, 1972

<u>No. Shares</u>		<u>Class</u>	<u>Total Value</u>
15,000	Canada Tungsten Mining Corporation - - - - -	Common	\$ 24,750
5,000	Gibraltar Mines Limited - - - - -	Common	39,500
5,000	Glendale Mobile Homes - - - - -	Common	62,500
*10,000	Helix Investments Ltd. - - - - -	Common	10,000
*10,000	Helix Investments Ltd. - - - - -	Preferred	100,000
*77,521	Hermes Electronics Ltd. - - - - -	Common	90,006
* 2,000	Hermes Electronics Ltd. - - - - -	Preferred	40,000
1,000	Hoborough Limited - - - - -	Preferred	1,000
60,000	Ionarc Smelters Ltd. - - - - -	Common	135,000
5,000	Leigh Instruments Ltd. - - - - -	Common	50,000
2,000	MacLean-Hunter Cable TV - - - - -	Common	37,000
2,500	Microsystems International Limited - - - - -	Common	24,688
* 5,000	Oxyplast Limited - - - - -	Common	50,000
* 5,000	Venturetek International Limited - - - - -	Common	25,000
	Sub-total - - - - -		689,444
Cash held for investment - - - - -			25,759
			<u>\$715,203</u>

*NOTE: Securities not having a quoted market value have been included at values determined by the Directors based principally on the underlying value of the assets represented by these securities.

